

Message Text

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C O N F I D E N T I A L TOKYO 5374

E.O. 11652: GDST

TAGS: ENRG, ETRD, EFIN, JA, UH

SUBJ: JAPAN-SOVIET NEGOTIATIONS ON SIBERIAN DEVELOPMENT

REF: TOKYO 5296

SUMMARY: ACCORDING TO SOURCE ON STAFF OF JAPAN-SOVIET ECONOMIC COOPERATION COMMITTEE, PRIVAGE LEVEL JAPAN-USSR AGREEMENT ON SOUTH YAKUTSK COAL DEVELOPMENT PROJECT WILL BE REACHED BEFORE MAY 1. JAPANESE MISSION NOW IN MOSCOW NEGOTIATING ON FAR EAST FORESTRY DEVELOPMENT PROJECT, AND FINAL ACCORD LIKELY IN MAY OR JUNE. ANNOUNCEMENT OF SUBSTANTIVE AGREEMENT ON JPANAEESE PORTION OF YAKUTSK GAS EXPLORATION PROJECT, CONDITIONED ON U.S. PARTICIPATION, LIKELY BE MADE ON APRIL 25. THESE PROJECTS WILL UTILIZE RECENTLY AUTHORIZED JAPANESE EXIMBANK CREDITS. RE RYUMEN RAILWAY-PIPELINE PROJECT, COMMITTEE SOURCE SAID JAPAN WAITING FOR SIGN FROM U.S. EXIMBANK OF WILLINGNESS TO PARTICIPATE BEFORE IT RESPONDS TO SOVIET PROPOSAL. END SUMMARY.

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1. Y SAKURAI, CHIEF ECONOMIST ON STAFF ON JAPAN-SOVIET ECONOMIC COOPERATION COMMITTEE (AND OFFICIAL OF KEIDANREN-

JAPANESE FEDERATION OF ECONOMIC ORGANIZATIONS) PROVIDED EMBASSY APRIL 23 WITH BRIEFING ON CURRENT STATUS OF JAPAN-SOVIET NEGOTIATIONS ON SIBERIAN DEVELOPMENT NOW UNDER WAY IN TOKYO. IN SUMMARY, HIS COMMENTS WERE AS FOLLOWS: A) SOUTH YAKUTSK COAL PROJECT--JAPAN AND USSR ARE EXPECTED TO CONCLUDE GENERAL AGREEMENT ON THIS PROJECT BEFORE MAY 1. FINAL DRAFTING OF TEXT IS UNDERWAY, AND THERE ARE NO MAJOR SUBSTANTIVE DIFFERENCES BETWEEN TWO SIDES. AGREEMENT WILL CALL FOR DELIVERIES OF COAL FROM YAKUTSK AREA TO BEGIN IN 1983. QUANTITIES AS FOLLOWS: 1893 - 3.2 MILLION TONS; 1984 - 4.4 MILLION TONS; 1895 - 2000 5.5 MILLION TONS PER ANNUM. FURTHER, AN ADDITIONAL ONE MILLION TONS PER YEAR OF COAL FROM KUZNETZ AREA (OVER AND ABOVE 3 MILLION TONS PER YEAR WHICH JAPAN NOW IMPORTS FROM THIS SOURCE) WILL BE EXPORTED TO JAPAN BEGINNING IN 1979. NO SPECIFIC PRICE FOR YAKUTSK COAL WILL BE AGREED ON AT THIS POINT. IF QUALITY IS COMPARABLE, PRICE FOR KUZNETZ COAL WILL BE USED AS "GUIDELINE" IN SETTING PRICE FOR EXPORTS OF SOUTH YAKUTSK COAL IN 1983-2000 PERIOD. B) KAWAI-SEDOV II FORESTRY DEVELOPMENT PROJECT (KS II) -- JAPAN DISPATCHED MISSION, HEADED BY UCHIDA, A SENIOR MANAGER OF KOMATSU CO., TO MOSCOW ON APRIL 21 TO DISCUSS DETAILS OF THIS PROJECT. CHANCES ARE GOOD THAT THIS DELEGATION WILL REACH SUBSTANTIVE AGREEMENTS WITH SOVIETS ON PRICE AND THAT FINAL AGREEMENT CAN BE SIGNED IN JAPAN IN MAY OR JUNE. DURING RECENTLY CONCLUDED CREDIT NEGOTIATIONS AT JAPAN EXIMBANK (SEE TOKYO 5296), SOVIETS INDICATED THAT THEY WOULD BE "FORTHCOMING" ON PRICE ISSUE IF JAPAN AGREED TO INCORPORATE K-S II PROJECT IN CREDIT PROTOCOL ULTIMATELY SIGNED APRIL 22. JAPAN ACCEPTED SOVIET POSITION, AND EXPECTS SOVIETS WILL AGREE TO FIRST YEAR PRICE OF LESS THAN \$68 PER CUBIC METER (CURRENT SOVIET EXPORT PRICE). OVER FIVE YEAR TERM OF AGREEMENT (1974-78), HOWEVER, SOVIETS ARE SEEKING GUARANTEED MINIMUM PRICE WHILE JAPANESE PRESSING FOR UNRESTRICTED PRICE NEGOTIATIONS FOR EACH YEAR'S EXPORT. THIS DIFFERENCE COULD PROLONG MOSCOW NEGOTIATIONS. K-S II PROJECT ENVISAGES TOTAL EXPORT OF 16.7 MILLION CUBIC METERS OF LUMBER TO JAPAN IN 1974-1978 PERIOD. THIS WOULD CONSTITUTE ABOUT 20 PERCENT OF ANNUAL JAPANESE LUMBER IMPORTS FROM USSR. C) SAKHALIN OIL AND GAS EXPLORATION -- GOOD PROGRESS IS BEING MADE IN CURRENT NEGOTIATIONS IN TOKYO BUT A NUMBER OF DIFFICULT PROBLEMS, ESPECIALLY THOSE RELATED TO FINANCING, REMAIN TO BE SETTLED. NO FINAL AGREEMENT IS IN SIGHT AT MOMENT.

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2. DISCUSSION WITH SAKURAI ON SIBERIAN DEVELOPMENT PROJECTS DID NOT TOUCH ON YAKUTSK GAS EXPLORATION PROJECT. AS REPORTED, JAPANESE UNWILLING TO MOVE AHEAD IN PRIVATE-

LEVEL NEGOTIATIONS ON THIS PROJECT WITHOUT ASSURANCE OF U.S. PARTICIPATION. MITSUI CO. SOURCE INVOLVED IN NEGOTIATIONS TOLD EMBOFF APRIL 23 THAT TWO SIDES WERE CLOSE TO REACHING AGREEMENT ON SUBSTANCE OF JAPANESE-SOVIET COOPERATION IN PROJECT, AND THAT AGREEMENT WOULD BE VERY CLOSE TO ACCORD PREVIOUSLY REACHED BETWEEN JAPANESE AND EL PASO GAS CO. (SEE TOKYO 4507). JAPANESE SIDE STILL INSISTING THAT ANY AGREEMENT WITH SOVIETS INCLUDE CLAUSE TO EFFECT THAT AGREEMENT CONDITIONED ON U.S. PARTICIPATION AND MAY BE SUBJECT TO "ALTERATION" TO MEET U.S. REQUIREMENTS. MEMORANDUM SUMMARIZING DISCUSSIONS LIKELY TO BE ISSUED ON APRIL 25.

3. RE TYUMEN PROJECT, SAKURAI SAID THAT SOVIETS WOULD LIKE TO BEGIN CONCRETE NEGOTIATIONS, BUT THAT IT UP TO JAPAN TO RESPOND TO SOVIET PROPOSAL INVOLVING RAILWAY. SAKURAI STRESSED, HOWEVER, THAT U.S. PARTICIPATION IN THIS PROJECT IS ESSENTIAL AND THEREFORE JAPAN WILL WAIT FOR SIGN RE U.S. EXIMBANK WILLINGNESS TO PARTICIPATE BEFORE RESPONDING TO USSR.

4. SAKURAI CONCLUDED BY NOTING THAT PAPER-PULP PROJECT RECENTLY PROPOSED BY SOVIETS WAS UNDER STUDY, BUT WAS "LONG WAY FROM CONCLUSION".

5. COMMENT: SINCE AGREEMENT ON CREDITS FOR YAKUTSK COAL, AND KS TIMBER PROJECT HAS ALREADY BEEN AGREED (SEE TOKYO 5296), THESE PROJECTS WILL BE IMPLEMENTED AS SOON AS PRIVATE AGREEMENTS REFERRED TO ABOVE ARE REACHED. SHOESMITH

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